

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

**Financial Statements with
Supplementary Information**

June 30, 2017 and 2016
(With Independent Auditors' Report)

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

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Independent Auditors' Report

Most Reverend Joe Vásquez and Finance Council
Central Administrative Office of the Diocese of Austin

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Administrative Office of the Diocese of Austin (the Diocese) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of the Diocese of Austin as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Atchley & Associates, LLP

Austin, Texas
December 4, 2017

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
ASSETS		
Cash and cash equivalents, primarily interest-bearing	\$ 7,608,515	\$ 4,166,386
Short-term investments - money market mutual funds	14,311,576	13,828,470
Receivables from parishes and schools	573,068	616,803
Prepaid expenses	331,603	579,833
Other receivables	404,513	614,847
Long-term investments		
Unrestricted	62,421,713	58,209,797
Restricted by bond covenants	5,816,298	5,940,730
DIAL notes receivable	67,505,522	71,757,254
Land, buildings, and equipment, net	18,918,167	19,178,434
	\$ 177,890,975	\$ 174,892,554
Liabilities and Net Assets		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,150,927	\$ 1,418,131
Collections held for transmittal	1,854,335	1,746,246
Interest payable	1,138,327	1,154,764
DIAL deposits	23,942,197	25,843,337
Self-insurance reserve	2,070,000	2,740,000
Bonds payable		
Current portion	1,370,000	1,315,000
Long term portion	74,825,000	76,195,000
Bond issuance costs, net	(2,456,544)	(2,604,243)
Discount on bonds payable	(1,081,493)	(1,132,169)
	102,812,749	106,676,066
NET ASSETS		
Unrestricted	72,181,119	65,017,598
Temporarily restricted	2,897,107	3,198,890
Permanently restricted	-	-
	75,078,226	68,216,488
Total Net Assets	75,078,226	68,216,488
Total Liabilities and Net Assets	\$ 177,890,975	\$ 174,892,554

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 5,796,297	\$ -	\$ -	\$ 5,796,297
Cathedraticum assessments	6,507,980	657,903	-	7,165,883
Contributions and bequests	1,104,238	1,729,459	-	2,833,697
Special collections	-	719,268	-	719,268
Interest income from DIAL notes	3,910,374	-	-	3,910,374
Investment income	5,378,411	7,528	-	5,385,939
Insurance premiums	14,896,812	-	-	14,896,812
Program service fees	1,408,396	40	-	1,408,436
Catholic Spirit	476,982	-	-	476,982
Retreat center	490,501	-	-	490,501
Other	686,020	-	-	686,020
Total revenues, gains, and other support	<u>40,656,011</u>	<u>3,114,198</u>	<u>-</u>	<u>43,770,209</u>
Net assets released from restrictions	<u>3,103,717</u>	<u>(3,103,717)</u>	<u>-</u>	<u>-</u>
Total revenues and release of restrictions	<u>43,759,728</u>	<u>10,481</u>	<u>-</u>	<u>43,770,209</u>
Expenses by Secretariat and major programs:				
Bishop	1,755,881	-	-	1,755,881
Canonical & Tribunal Services	593,395	-	-	593,395
Business & Finance	4,809,571	-	-	4,809,571
Administration	1,908,785	-	-	1,908,785
Formation & Spirituality	1,868,915	-	-	1,868,915
Stewardship & Development	2,255,525	-	-	2,255,525
Life, Charity & Justice	1,383,087	-	-	1,383,087
Clergy & Religious	1,776,678	-	-	1,776,678
Vocations	2,046,814	-	-	2,046,814
Retired Priests	866,803	-	-	866,803
Insurance Plans	12,532,463	-	-	12,532,463
DIAL	5,110,554	-	-	5,110,554
Total expenses	<u>36,908,471</u>	<u>-</u>	<u>-</u>	<u>36,908,471</u>
Change in net assets	6,851,257	10,481	-	6,861,738
Reclassification of restricted net assets	312,264	(312,264)	-	-
Net assets at beginning of year	<u>65,017,598</u>	<u>3,198,890</u>	<u>-</u>	<u>68,216,488</u>
Net assets at end of year	<u>\$ 72,181,119</u>	<u>\$ 2,897,107</u>	<u>\$ -</u>	<u>\$ 75,078,226</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 5,590,869	\$ -	\$ -	\$ 5,590,869
Cathedraticum assessments	6,285,170	459,922	-	6,745,092
Contributions and bequests	975,910	1,740,453	-	2,716,363
Special collections	-	812,798	-	812,798
Interest income from DIAL notes	4,105,464	-	-	4,105,464
Investment income	2,552,754	5,679	-	2,558,433
Insurance premiums	13,685,297	-	-	13,685,297
Program service fees	1,393,326	17,730	-	1,411,056
Catholic Spirit	488,590	-	-	488,590
Retreat center	449,885	-	-	449,885
Other	2,235,974	-	-	2,235,974
Total revenues, gains, and other support	37,763,239	3,036,582	-	40,799,821
Net assets released from restrictions	3,168,367	(3,168,367)	-	-
Total revenues and release of restrictions	40,931,606	(131,785)	-	40,799,821
Expenses by Secretariat and major programs:				
Bishop	1,861,233	-	-	1,861,233
Canonical & Tribunal Services	473,478	-	-	473,478
Business & Finance	4,474,131	-	-	4,474,131
Administration	3,058,963	-	-	3,058,963
Formation & Spirituality	1,729,728	-	-	1,729,728
Stewardship & Development	2,221,252	-	-	2,221,252
Life, Charity & Justice	1,300,814	-	-	1,300,814
Clergy & Religious	1,771,530	-	-	1,771,530
Vocations	1,874,459	-	-	1,874,459
Retired Priests	984,712	-	-	984,712
Insurance Plans	13,101,481	-	-	13,101,481
DIAL	5,164,606	-	-	5,164,606
Total expenses	38,016,387	-	-	38,016,387
Change in net assets	2,915,219	(131,785)	-	2,783,434
Reclassification of restricted net assets	(233,891)	233,891	-	-
Net assets at beginning of year	62,336,270	3,096,784	-	65,433,054
Net assets at end of year	<u>\$ 65,017,598</u>	<u>\$ 3,198,890</u>	<u>\$ -</u>	<u>\$ 68,216,488</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**
Statement of Functional Expenses
Year Ended June 30, 2017

	Bishop	Canonical & Tribunal Services	Business & Finance	Administration	Formation & Spirituality
Salary and Benefits	\$ 361,741	\$ 512,488	\$ 1,944,065	\$ 918,579	\$ 1,184,749
Occupancy Costs	130,302	3,338	505,650	4,103	180,111
Professional Services	1,015	10,427	332,809	255,885	24,848
Administrative	48,657	34,160	821,074	63,860	53,162
Staff Development and Travel	47,856	28,893	38,043	37,536	52,035
Advertising and Promotion	7,576	1,691	10,016	1,858	7,483
Interest	-	-	-	-	-
Distributions	-	-	105,750	-	-
Program Events	19,524	672	-	42,779	335,187
Donations/Grants/Aid	1,135,923	-	49,818	582,509	18,821
Clergy Formation/Support	3,287	1,592	53	1,676	1,245
Other Expenses	-	134	23,372	-	11,274
Insurance Programs	-	-	-	-	-
Depreciation and Amortization	-	-	978,921	-	-
Total Expenses	\$ 1,755,881	\$ 593,395	\$ 4,809,571	\$ 1,908,785	\$ 1,868,915

The accompanying notes are an integral part of these financial statements.

Stewardship & Development	Life, Charity & Justice	Clergy & Religious	Vocations	Retired Priests	Insurance Plans	DIAL	Totals
\$ 796,740	\$ 534,192	\$ 886,187	\$ 108,592	\$ 62,945	\$ -	\$ -	\$ 7,310,278
4,744	2,442	25,540	25,620	88,696	-	-	970,546
280,321	23,980	76,895	25,547	92,340	195,891	25,065	1,345,023
685,003	14,534	35,960	12,870	22,009	982,264	12	2,773,565
40,736	44,305	46,034	16,556	7,920	-	-	359,914
61,828	952	5,351	13,783	-	-	-	110,538
-	-	-	-	-	-	4,937,778	4,937,778
-	-	-	-	-	-	-	105,750
164,141	55,207	308,076	43,289	-	-	-	968,875
221,176	703,738	61,802	13,921	-	270,289	-	3,057,997
836	2,423	304,290	1,786,636	592,893	-	-	2,694,931
-	1,314	26,543	-	-	-	-	62,637
-	-	-	-	-	11,084,019	-	11,084,019
-	-	-	-	-	-	147,699	1,126,620
\$ 2,255,525	\$ 1,383,087	\$ 1,776,678	\$ 2,046,814	\$ 866,803	\$ 12,532,463	\$ 5,110,554	\$ 36,908,471

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**
Statement of Functional Expenses
Year Ended June 30, 2016

	Bishop	Canonical & Tribunal Services	Business & Finance	Administration	Formation & Spirituality	Stewardship & Development
Salary and Benefits	\$ 376,398	\$ 394,467	\$ 1,796,218	\$ 857,154	\$ 1,067,713	\$ 735,057
Occupancy Costs	253,091	3,203	404,437	5,839	165,205	9,574
Professional Services	-	10,631	225,562	219,465	6,109	477,982
Administrative	43,612	36,983	950,929	71,764	68,293	586,519
Staff Development and Travel	55,073	27,742	47,899	44,151	31,194	38,675
Advertising and Promotion	5,000	410	16,625	2,094	2,629	70,066
Interest	-	-	-	-	-	-
Distributions	-	-	-	-	-	-
Program Events	18,163	42	-	42,214	364,756	121,554
Donations/Grants/Aid	1,109,896	-	48,793	1,816,282	4,735	181,825
Clergy Formation/Support	-	-	-	-	-	-
Other Expenses	-	-	63,467	-	19,094	-
Insurance Programs	-	-	-	-	-	-
Depreciation and Amortization	-	-	920,201	-	-	-
Total Expenses	\$ 1,861,233	\$ 473,478	\$ 4,474,131	\$ 3,058,963	\$ 1,729,728	\$ 2,221,252

The accompanying notes are an integral part of these financial statements.

	Life, Charity & Justice	Clergy & Religious	Vocations	Retired Priests	Insurance Plans	DIAL	Totals
\$	488,227	\$ 740,142	\$ 95,285	\$ 50,123	\$ -	\$ -	\$ 6,600,784
	3,591	40,236	30,141	138,607	-	-	1,053,924
	23,761	54,955	21,423	93,969	241,329	23,498	1,398,684
	22,339	33,630	10,209	74,457	826,294	56	2,725,085
	50,382	59,309	14,135	8,735	-	-	377,295
	592	4,795	7,532	-	-	-	109,743
	-	-	-	-	-	4,990,900	4,990,900
	-	-	-	-	-	-	-
	23,220	306,406	31,004	-	-	-	907,359
	680,219	179,344	12,000	16,231	150,000	-	4,199,325
	-	339,965	1,652,730	599,867	-	-	2,592,562
	8,483	12,748	-	2,723	-	-	106,515
	-	-	-	-	11,883,858	-	11,883,858
	-	-	-	-	-	150,152	1,070,353
\$	1,300,814	\$ 1,771,530	\$ 1,874,459	\$ 984,712	\$ 13,101,481	\$ 5,164,606	\$ 38,016,387

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 6,861,738	\$ 2,783,434
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	978,921	920,201
Amortization of bond issuance costs	147,699	150,152
Amortization of bond discount	50,676	49,013
Net realized & unrealized (gains) losses on investments	(3,326,577)	(570,598)
Gain from sale of fixed assets	-	(1,496,732)
Write off of obsolete fixed assets, net of accumulated depreciation	321,792	-
Changes in assets and liabilities:		
(Increase) decrease in receivables from parishes and schools	43,735	(103,215)
(Increase) decrease in other receivables	210,334	(200,519)
(Increase) decrease in prepaid expenses	248,230	(247,472)
Increase (decrease) in collections held for transmittal	108,089	(569,003)
Increase (decrease) in accounts payable and accrued expenses	(267,204)	61,211
Increase (decrease) in interest payable	(16,437)	(14,288)
Increase (decrease) in self-insurance reserve	(670,000)	1,190,987
Net cash provided by operating activities	4,690,996	1,953,171
Cash from investing activities:		
Proceeds from sale and maturities of investments	29,513,119	20,110,652
Purchase of investments	(30,274,026)	(32,153,907)
Issuance of DIAL notes	(5,966,584)	(7,077,354)
Principal payments received on DIAL notes	10,218,316	11,934,222
Net change in money market funds	(483,106)	324,555
Proceeds from sale of fixed assets	-	1,901,892
Purchase of property and equipment	(1,040,446)	(423,714)
Net cash provided by (used in) investing activities	1,967,273	(5,383,654)
Cash from financing activities:		
Principal payments on bonds	(1,315,000)	(1,270,000)
Increase (decrease) in DIAL deposits, net	(1,901,140)	3,500,962
Net cash provided by (used in) financing activities	(3,216,140)	2,230,962
Net increase (decrease) in cash	3,442,129	(1,199,521)
Cash and cash equivalents at beginning of year	4,166,386	5,365,907
Cash and cash equivalents at end of year	\$ 7,608,515	\$ 4,166,386
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 4,648,863	\$ 4,720,530

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note A - Organization

The accompanying financial statements are those of the Central Administrative Office (CAO) of the Diocese of Austin (Diocese). These statements include the assets, liabilities, net assets, and financial activities of all institutions and organizations providing services at the diocesan level of administration which are fiscally responsible to the Bishop of the Diocese of Austin.

The CAO is incorporated as a non-profit organization in the state of Texas, the Catholic Diocese of Austin. All parishes in the Diocese are also separately incorporated as non-profit organizations. The CAO and parishes are organized and operate in the way the church views itself according to the Code of Canon Law, promulgated by the Roman Catholic Church.

A substantial portion of the Diocesan transactions are with affiliated parishes, schools and other Catholic organizations. The accompanying audited financial statements do not include the parishes, missions, schools and certain other Diocesan activities.

CAO – The CAO provides programs and services to parishes, schools and other Catholic organizations in Central Texas. Certain administrative functions of the Diocese are centered in the CAO, which oversees the overall operations of the Diocese, including all ministry, mission, and social service activities of the various parishes, schools and other Catholic organizations and provides training, resources, and leadership for the activities undertaken by them.

Bishop – The office of the Bishop includes the activities of the Bishop, Bishop Emeritus, Auxiliary Bishop and support staff. It also includes direct grants made by the Bishop to parishes, schools and student centers within the Diocese.

Canonical and Tribunal Services – This secretariat is responsible for assisting the Bishop in the judicial affairs of the Diocese in accordance with canon law.

Business and Finance – This secretariat is responsible for coordinating the financial, accounting, building and construction, information technology and parish business services of the Diocese. Accounting responsibilities include administering the Diocesan Investment and Loan Fund and Insurance Funds and performing the accounting duties for the entities included in these financial statements. This secretariat also provides services to parishes and schools by assisting with budgeting, finance and facilities planning and construction.

Administration – This secretariat is responsible for the Diocesan archives, legal matters, human resources and Catholic Schools, Ethics in Ministry Programs (safe environment and volunteer backgrounds), and approval of visiting speakers and clergy. The secretariat provides services to parishes and schools in areas of human resources, legal issues, policy adoption and enforcement, and compliance with safe environment.

Formation and Spirituality – This secretariat is responsible for coordinating the ministries of religious education for adults, youth, and children, evangelization, college campus ministry, lay ministry formation, family life and retreat ministry, including Cedarbrake Renewal Center. Cedarbrake Renewal Center provides facilities for parish gatherings, personal and directed retreats, spiritual and education programs, and group meetings in an environment conducive to prayer, spiritual enrichment, reflection, relaxation and creative thinking.

Stewardship and Development – This secretariat serves the parishes and schools of the Diocese by providing education and consultation about stewardship and development. Stewardship and Development coordinates the Catholic Services Appeal effort, Diocesan capital campaigns and other stewardship activities. This secretariat also includes Diocesan communications including The Catholic Spirit, media relations and content of the Diocesan website.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note A - Organization (Continued)

Life, Charity and Justice – This secretariat is responsible for collaborating with parishes of the Diocese to assist them in the lifelong process of forming disciples. This includes pro-life, social concerns, Black ministry, Hispanic ministry, criminal justice and mission/evangelization ministries. The secretariat also coordinates the missionary appeals, appears for and with the bishop speaking on issues of policy and social justice, coordinates ministers serving in prisons, coordinates legislative and regulatory action on issues of social justice, and provides formation programs to parish leaders in the areas it coordinates.

Clergy and Religious – This secretariat is responsible for assisting in the assignment, training, and support of clergy.

Vocations – This office is responsible for the recruitment, training and formation of seminarians in the Diocese.

Retired Priests – This office provides for spiritual, financial and physical support of retired clergy, including the operations of the John Paul II Residence for Priests.

Insurance Plans – This includes the activities of administering the health plan for employees of parishes, schools, the CAO and other Catholic organizations throughout the Diocese. It also includes the property, liability and workers compensation insurance programs for these organizations.

DIAL – The Diocesan Investment and Loan Fund (DIAL), was established by the diocese to provide parishes and schools with a source of loan funding for capital improvements and major renovations. Each parish and school is encouraged to deposit amounts in excess of those required for operations into the DIAL. The DIAL was established by the Bishop with the advice and counsel of the Diocesan Finance Council and is administered by the Chief Financial Officer of the Diocese.

Note B - Summary of Significant Accounting Policies

1. Method of Accounting

The financial statements of the CAO are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

2. Basis of Presentation

The accompanying financial statements include the financial activities of departments and offices that comprise the CAO. All significant interoffice transactions have been eliminated.

The financial statements of the CAO are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Not-for-Profit Entities*. The Diocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets-- Includes net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets-- Temporarily restricted net assets are funds whose use by the CAO have been limited by donor stipulations that limit the use of the contributed assets to (a) later periods or after specific dates (time restrictions), (b) specific purposes (purpose restrictions) or (c) both. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**
Notes to Financial Statements
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation (Continued)

Permanently restricted net assets-- Permanently restricted net assets represent endowment funds which are subject to the restriction of donors that the principal be invested in perpetuity and only the income be utilized. There were no permanently restricted net assets as of June 30, 2017 or June 30, 2016.

3. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and time deposits with an initial maturity of less than 90 days. Money market funds are considered to be held for short-term investment and are not included in cash and cash equivalents.

Cash Concentration

The CAO maintains cash balances at several financial institutions. A portion of such cash and cash equivalents are in excess of insurance limits provided by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). If these financial institutions were not to honor their contractual liability, the Diocese would incur loss. Management is of the opinion that there is minimal risk of loss because of the financial strength of these financial institutions.

Cathedraticum Assessments

Cathedraticum assessments are recorded on the accrual basis of accounting. On a calendar year basis, assessments are made by the Diocese on parishes at the rate of 10% of parish collections and other assessable revenue. The assessment on parishes who subsidize their own parish school is 9%. Management provides for probable uncollectible amounts through a provision for uncollectible accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position based on quoted market prices and fair value reports provided by fund managers. Unrealized gains and losses are included in the statements of activities. Land held for investment is valued at historical cost. See Note D.

Investment income includes interest and dividends on investments, as well as both (1) the realized gains and losses on investment transactions and (2) unrealized gains and losses from changes in the market value of investment.

Realized gains and losses on disposition of investment securities are determined using fair market value and transactions are recorded on a trade date basis. Net realized gains (losses) on disposition of investments for the years ended June 30, 2017 and 2016, were \$692,578 and (\$77,396), respectively.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

FASB ASC 820-10, *Fair Value Measurements*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. FASB ASC 820-10 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Diocese.

The following methods and assumptions were used by the CAO in estimating its fair value disclosures for financial instruments:

Investment securities - Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

DIAL notes receivable - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for fixed rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms and credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Payables - The carrying amounts reported in the statements of financial position for all payables approximate those liabilities' fair values.

The estimated fair values of the CAO's financial instruments as of June 30, are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Short-term investments	\$ 14,311,576	\$ 14,311,576	\$ 13,828,470	\$ 13,828,470
Long-term investments	67,596,452	67,596,452	63,508,968	63,508,968
DIAL notes receivable	67,505,522	73,492,713	71,757,254	78,293,760
Land held for investment	641,559	641,559	641,559	641,559
Financial liabilities:				
DIAL deposits	23,942,197	23,942,197	25,843,337	25,843,337
Bonds payable	72,656,963	72,656,963	73,773,588	73,773,588

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB-ASC 820-10 are described below:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The CAO uses appropriate valuation techniques based on available inputs to measure fair value of its investments. An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Common stocks, corporate bonds and U.S. government securities : Valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds and mutual funds : Valued at the net asset value (NAV) of shares held by the Diocese at year end.

Land held for investment : Valued at cost which management believes approximates fair value.

Investments in closely held entities : Valued at net realizable value which management believes approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the CAO believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The carrying amounts of financial instruments, including cash and cash equivalents, receivables, prepaid expenses and other assets, accounts payable, accrued expenses and deferred revenue approximate fair value due to the short-term nature of these instruments. The fair value of investments are estimated based on valuations provided by the third party custodians.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

The deposits and loans in the DIAL program and amounts due from parishes are believed to be recorded at fair value. However, the transactions are with parishes and schools (related parties) and accordingly the fair value may differ from arms-length transactions between unrelated parties.

Land, Buildings, and Equipment

Land, buildings, and equipment in excess of \$5,000 are recorded at cost. Donated properties are recorded at fair value at date of gift. Expenditures that significantly increase values, change capacities or extend useful lives are capitalized. Depreciation is provided over the estimated useful lives (5 to 30 years) using the straight-line method. Repairs and maintenance costs are expensed as incurred. The CAO leases certain office equipment. The leases are structured and accounted for as operating leases and the related payments are expensed ratably over the rental period.

Valuation of Long-Lived Assets

The CAO reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the estimated fair value is less than the carrying amount of the asset. No impairment losses were recognized during the years ended June 30, 2017 or June 30, 2016.

Collections Held for Transmittal

Parishes within the Diocese take up collections for specific charities and organizations within and outside the Diocese. Such receipts are remitted to the CAO and classified as a liability until the funds are remitted to the appropriate organizations.

Self-Insurance Reserve

The Diocese establishes insurance claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimates of reinsurance amounts recoverable on unpaid claims are recorded as receivables. The amounts paid to ultimately settle these claims may be more or less than the amounts currently accrued.

Catholic Services Appeal Collections

Catholic Services Appeal (CSA) is an annual appeal to all Catholics in the Diocese to support various programs and ministries. CSA contributions are recorded as revenue when received.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

Contributions and Bequests

Contributions and bequests are recognized as revenue when they are received or unconditionally pledged. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

The CAO reports gifts of land, buildings, and equipment at fair value at date of donation as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how these long-lived assets must be maintained, the CAO reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The CAO is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. However, the CAO is subject to tax under Section 511(a) to the extent it has unrelated business taxable income. The CAO had no material unrelated business taxable income during fiscal years 2017 or 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The CAO invests in various securities including U.S. Government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, foreign exchange fluctuations, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management of the CAO has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were issued.

Note C - Receivable from Parishes and Schools

The accounts receivable arise in the normal course of the operation of the CAO and are primarily due from the parishes and schools of the Diocese. Credit is generally extended on a short-term basis; thus, accounts receivable bear no interest. The CAO periodically reviews the outstanding accounts receivable for the purposes of establishing an allowance for uncollectible accounts. Aggregate accounts receivable past due 90 days or more amount to approximately \$18,209 and \$39,544 as of June 30, 2017, and 2016, respectively. Delinquency status is based on normal credit terms.

	2017	2016
Insurance programs	\$ 433,306	\$ 423,400
Interest from DIAL notes	138,665	138,478
Cathedraticum assessments	1,097	54,925
Total	\$ 573,068	\$ 616,803

Note D - Investments

Investments at June 30, 2017 and 2016, are summarized as follows:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Short-term investments - money market mutual funds	\$ 14,311,576	\$ 14,311,576	\$ 13,828,470	\$ 13,828,470
<i>Unrestricted long-term investments</i>				
Marketable securities				
Certificates of deposit	\$ 9,500,936	\$ 9,500,936	\$ 8,992,228	\$ 8,992,228
Corporate stocks	20,573,588	25,790,221	20,827,427	23,147,674
Corporate bonds	18,493,005	18,559,730	17,441,885	17,720,083
U.S. Government agency securities	5,018,676	5,033,314	4,746,600	4,901,920
Municipal bonds	589,414	608,060	791,441	826,922
Mutual funds - bond	1,371,325	1,339,678	1,293,397	1,232,152
Mutual funds - equity	-	-	47,034	44,766
Total marketable securities	55,546,944	60,831,939	54,140,012	56,865,745
Land held for investment, at cost	641,559	641,559	641,559	641,559
Investments in closely or privately held entities	99,416	948,215	99,416	702,493
Total unrestricted long-term investments	56,287,919	62,421,713	54,880,987	58,209,797

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note D - Investments (Continued)

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
<i>Restricted long-term investments</i>				
Certificates of deposit	2,936,000	2,932,320	1,711,000	1,735,477
U.S. Government securities	2,886,512	2,883,978	4,224,872	4,205,253
Total restricted long-term investments	<u>5,822,512</u>	<u>5,816,298</u>	<u>5,935,872</u>	<u>5,940,730</u>
Total long-term investments	<u>\$ 62,110,431</u>	<u>\$ 68,238,011</u>	<u>\$ 60,816,859</u>	<u>\$ 64,150,527</u>

Upon the conversion of the Series 2005 Bonds in April 2010, a Debt Service Reserve Fund was established in an aggregate amount of \$5,991,256 from a portion of the proceeds of the remarketing of the Series 2005 Bonds. Investments in the Debt Service Reserve Fund are restricted. See Note H.

Investment income (loss) for the years ended June 30, 2017 and 2016, is comprised of the following:

	2017	2016
Interest and dividend income	\$ 2,059,362	\$ 1,987,835
Realized gains (losses)	692,578	(77,396)
Unrealized gains (losses)	2,633,999	647,994
	<u>\$ 5,385,939</u>	<u>\$ 2,558,433</u>

Note E - DIAL Program

DIAL deposits may be invested by parishes on a short-term basis (one year or less) or a long-term basis (greater than one year). The interest rate on short term deposits is changed monthly based on market conditions and the interest rate on long-term deposits is variable. Interest rates for deposits for the years ended June 30, 2017 and 2016, ranged from:

	2017	2016
Short-term deposits (< 6 months)	0.10%	0.10%
Short-term deposits (> 6 months)	0.60%	0.60%
Long-term deposits	1.25%	1.25%

Interest rates for DIAL notes receivable are variable (generally expected to be received within 5 years) or fixed (generally expected to be received over a term longer than 5 years). The variable rate is floating and fixed rates are set monthly based on the term of the note and prevailing market conditions. Notes receivable are generally established with a maximum term of fifteen years. Shown below are the interest rates for the notes receivable portfolio at June 30, 2017 and 2016:

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note E - DIAL Program (Continued)

<u>Rate</u>	<u>2017</u>	<u>2016</u>
2.50% - 3.50%	\$ 4,717,521	\$ 7,414,518
4.00% - 4.75%	19,225,290	21,362,996
5.25% - 5.50%	2,843,011	4,306,710
5.98% - 6.03%	261,831	231,255
6.14%	5,161,796	6,202,210
6.21%	9,568,495	10,779,294
6.25% - 6.62%	3,012,793	3,044,301
6.83% - 7.51%	22,714,785	18,415,970
Total	<u>\$ 67,505,522</u>	<u>\$ 71,757,254</u>

Notes receivable mature as follows:

Year Ending June 30,	
2018	\$ 4,659,605
2019	3,900,310
2020	3,689,536
2021	3,551,825
2022	3,734,188
Thereafter	47,970,058
Total	<u>\$ 67,505,522</u>

Note F - Restricted Net Assets

Contributions that are restricted by the donor are recognized as temporarily or permanently restricted revenues. (See Note B). Temporary donor restrictions are released when the purpose set forth by the donor has been substantially achieved, generally by incurring expenses related to the stated purpose.

Temporarily restricted net assets at June 30, 2017 and 2016, respectively, include:

	<u>2017</u>	<u>2016</u>
Building Campaign Assessments - Parish Assistance	\$ 1,617,608	\$ 1,327,983
Our Faith Our Legacy Capital Campaign	352,163	642,669
Capital Improvements Fund	-	312,264
Catholic Campaign for Human Development	238,676	210,643
Masters of Theology Program	119,888	132,759
Bishop's Charitable Fund	192,007	186,716
Other	376,765	385,856
	<u>\$ 2,897,107</u>	<u>\$ 3,198,890</u>

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note F - Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Seminarians	\$ 644,637	\$ 660,881
Retired Priests	326,481	465,181
Catholic Schools	275,449	411,623
Catholic Charities	143,660	151,202
Capital Improvement Fund	-	135,000
Assistance to Parishes	368,278	372,574
Pro-Life Programs	94,787	130,368
Higher Education	653,608	125,104
Bishop's Charitable Fund	74,095	163,815
Cedarbrake	71,290	68,301
Social Concerns	139,185	150,765
Other	312,247	333,553
	<u>\$ 3,103,717</u>	<u>\$ 3,168,367</u>

Fiscal year 2017 includes a reclassification from temporarily restricted net assets to unrestricted net assets in the amount of \$312,264. Fiscal year 2016 includes a reclassification from unrestricted net assets to temporarily restricted net assets in the amount of \$233,891.

Note G - Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operating land, buildings, and improvements	\$ 19,210,820	\$ 18,807,576
John Paul II Residence for Priests	5,015,927	5,010,129
Retreat center land, buildings, and equipment	4,391,063	4,741,039
Equipment and furnishings	65,286	1,562,781
Land held for future parish and school sites	382,430	499,811
Other assets	319,115	189,483
Total land, buildings and equipment	<u>29,384,641</u>	<u>30,810,819</u>
Less: accumulated depreciation	(10,466,474)	(11,632,385)
Land, buildings, and equipment, net of depreciation	<u>\$ 18,918,167</u>	<u>\$ 19,178,434</u>

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note H - Long Term Debt

In April 2005, the Capital Area Cultural Education Facilities Finance Corporation issued \$79,800,000 in aggregate principal amount of Variable Rate Revenue Bonds, Series 2005, pursuant to a Trust Indenture and Security Agreement with Well Fargo Bank, Trustee and the Bishop for the Diocese of Austin. The proceeds were used for the purpose of funding various capital projects (including capitalized interest), refinancing certain indebtedness of parishes and schools which was guaranteed by the Diocese and reimbursing the Diocese for certain qualified expenditures. On April 30, 2010, the Diocese exercised its option to convert the mode for the Variable Rate Revenue Bonds, Series 2005, from a variable rate to fixed rates. The outstanding bonds and accrued interest were tendered and \$84,460,000 of bonds were remarketed in the aggregate principal amount of \$22,810,000 (Subseries 2005A Bonds) and \$61,650,000 (Subseries 2005B Bonds). The Subseries 2005A and Subseries 2005B Bonds are collectively referred to as "Series 2005 Bonds".

The Series 2005 Bonds are an unsecured general obligation and are not secured by any revenues or a mortgage on any real property. The Series 2005 Bonds mature on April 1, 2045. The proceeds of the Series 2005 Bonds were used as follows:

Tender of Variable Rate Revenue Bonds, Series 2005	\$ 76,100,000
Discount on Bonds	1,224,548
Debt Service Reserve Fund	5,991,256
Costs of Issuance	1,144,196
Par Value of Series 2005 Bonds	<u>\$ 84,460,000</u>

The Subseries 2005A Bonds are serial bonds bearing interest at fixed rates with an average rate of 5.023%. The Subseries 2005B Bonds are term bonds bearing interest at a fixed rate of 6.125%. Interest is payable semiannually on April 1 and October 1 of each year. None of the Series 2005 Bonds may be redeemed prior to April 1, 2020. Under the terms of the Master Trust Indenture, the Diocese must maintain certain debt covenants. The Diocese was in compliance with all covenants at June 30, 2017.

Pursuant to the bond indenture, the Diocese established a reserve fund securing the Series 2005 Bonds in the aggregate amount of \$5,991,256 (Debt Service Reserve Fund). Monies in the Debt Service Reserve Fund are required to be used to pay the principal and interest on the Series 2005 Bonds at any time that monies paid by the Diocese are insufficient for such payments.

The Diocese has a Revolving Line of Credit with Wells Fargo Bank in the amount of \$5 million. Amounts drawn under this line of credit are used to finance certain indebtedness of parishes and schools on a short-term basis. From time to time, a portion of the line of credit may be allocated to letters of credit (see Note M). On June 30, 2017 or 2016, no amount was outstanding under the line of credit. The interest rate on the line of credit is a floating rate of LIBOR plus 1.35%. Under the terms of the Line of Credit Agreement, the Diocese must maintain certain debt covenants. The Diocese was in compliance with all covenants at June 30, 2017.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**
Notes to Financial Statements
June 30, 2017 and 2016

Note H - Long Term Debt (Continued)

Principal payments for the Series 2005 Bonds due over the next five years and thereafter are as follows:

Year Ending June 30,	
2018	\$ 1,370,000
2019	1,425,000
2020	1,485,000
2021	1,550,000
2022	1,610,000
Thereafter	<u>68,755,000</u>
Total	<u>\$ 76,195,000</u>

Note I - Insurance

The Diocese administers a partially self-insured program for property, auto, liability and workers' compensation for the CAO, parishes and schools in the Diocese. The program is funded by premiums charged by the Diocese to the parishes and schools and pays the initial \$400,000 for property and workers' compensation claims and \$250,000 for liability claims. Claims in excess of these limits are insured with insurance carriers. The insured values of the buildings, improvements and contents in the program totaled approximately \$703,200,000 (unaudited) and \$675,800,000 (unaudited) at June 30, 2017 and 2016, respectively.

The Diocese also administers a partially self-insured program for healthcare covering all eligible priests and lay employees at parishes, schools and the CAO. The program is funded by premiums charged by the Diocese to parishes and schools. The Diocese pays the initial \$175,000 of claims per employee per year to a maximum aggregate of 125% of expected claims, which vary based on enrollment. Amounts in excess of this aggregate are insured with a general insurance carrier. Healthcare claims totaled \$9,522,740 and \$8,701,376 net of individual stop loss reimbursements of \$308,692 and \$273,332, during the years ended June 30, 2017 and 2016, respectively.

A contingent liability exists which would become a liability of the Diocese and the participating parishes in the event that the reinsurers are unable to meet the obligations assumed under reinsurance agreements.

Note J - Leases

The CAO leases certain office equipment under operating leases which expire at various dates through 2018. Future minimum lease payments due under operating leases at June 30, 2017 are \$53,004. Lease expense was \$66,934 and \$96,399 for the years ended June 30, 2017 and 2016, respectively.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements
June 30, 2017 and 2016

Note K - Pension Plan and Post-Retirement Benefits

The Diocese contributes to a noncontributory defined benefit pension plan administered by the Diocese which covers substantially all Diocesan clergy in the CAO of the Diocese and in the various parishes. The CAO is responsible for funding the priests working in the CAO and parish priests in transition between parishes. For the purposes of the financial statements, the pension plan is considered to be a multi-employer plan as defined under FASB ASC 715-20, *Defined Benefit Plans*, since the financial activity of parishes and other entities at the Diocese, which contribute to these plans, are not included in these financial statements. The Diocese contributed \$120,000 to the defined benefit plan for the year ended June 30, 2016. The Diocese did not make a contribution for the year ended June 30, 2017.

The Diocese also provides certain health care, life insurance and long-term care benefits for substantially all retired Diocesan clergy. The costs of providing those benefits are funded primarily by special parishioner collections and operating revenues of the CAO. Costs incurred by the Diocese for post-retirement benefits were \$568,624 and \$587,711 for the years ended June 30, 2017 and 2016, respectively.

The Diocese sponsors a tax deferred defined contribution plan for all lay employees of the CAO. All lay employees are eligible to participate in the plan. Contributions by employees are restricted by IRS 403(b) regulations, while the Diocese contributes 6% of salary per employee per year and a dollar-for-dollar match of employee contributions up to 4% of salary. Contributions by the Diocese were \$373,776 and \$330,096, for the years ended June 30, 2017 and 2016, respectively.

Note L - Related Party Transactions

The parishes in the Diocese pay cathedraticum to provide for the operating budget of the CAO. Service fees are charged to parishes and schools for insurance and health care programs which are centrally administered by the CAO for the benefit of the entire Diocese. The CAO also administers the DIAL program for the benefit of the entire Diocese. All of these transactions are separately disclosed in the financial statements and notes thereto.

Note M - Commitments and Contingencies

The Bishop of the Diocese of Austin is cosigner or guarantor of loans to the Diocese's parishes and the other affiliated entities which aggregated are approximately \$8,063,442 (unaudited) and \$8,568,512 (unaudited) at June 30, 2017 and 2016, respectively. Additionally, the Diocese has pledged property with a book value of \$7,319,905 at June 30, 2017 (which management believes approximates market value) to secure an outstanding loan to a bank by one of its affiliated entities.

The Diocese has open letters of credit in the amount of \$485,000 and \$430,000 for workers' compensation insurance for June 30, 2017 and 2016, respectively.

The Diocese is subject to various commitments and contingent liabilities, including general litigation arising in the ordinary course of its activities. Various lawsuits and claims are pending against the Diocese, the majority of which are subject to coverage under the Diocese's insurance programs. Where applicable, reserves have been established for those cases where the potential liability is estimable and probable. Management believes that the resolution of such matters will not have a material impact on the financial condition of the Diocese as of June 30, 2017.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2017 and 2016

Note N - Fair Value Disclosures

The following table sets forth by level, within the fair value hierarchy, the fair value of investments as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments	\$ 14,311,576	\$ -	\$ -	\$ 14,311,576
<u>Long-term investments:</u>				
Certificates of deposit	\$ 12,433,255	\$ -	\$ -	\$ 12,433,255
Corporate stocks	25,790,221	-	-	25,790,221
Corporate bonds	18,559,731	-	-	18,559,731
U.S. Government agency securities	7,917,292	-	-	7,917,292
Municipal bonds	608,060	-	-	608,060
Mutual funds - bonds	1,339,678	-	-	1,339,678
Land held for investment	-	-	641,559	641,559
Investment in closely held entities	-	-	948,215	948,215
Total long-term investments	<u>\$ 66,648,237</u>	<u>\$ -</u>	<u>\$ 1,589,774</u>	<u>\$ 68,238,011</u>

The following table sets forth by level, within the fair value hierarchy, the fair value of investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments	\$ 13,828,470	\$ -	\$ -	\$ 13,828,470
<u>Long-term investments:</u>				
Certificates of deposit	\$ 10,727,705	\$ -	\$ -	\$ 10,727,705
Corporate stocks	23,147,674	-	-	23,147,674
Corporate bonds	17,720,083	-	-	17,720,083
U.S. Government agency securities	9,107,173	-	-	9,107,173
Municipal bonds	826,922	-	-	826,922
Mutual funds - bonds	1,232,152	-	-	1,232,152
Mutual funds - equity	44,766	-	-	44,766
Land held for investment	-	-	641,559	641,559
Investment in closely held entities	-	-	702,493	702,493
Total long-term investments	<u>\$ 62,806,475</u>	<u>\$ -</u>	<u>\$ 1,344,052</u>	<u>\$ 64,150,527</u>

The following table shows a summary of changes in the fair value of Level 3 investments for the years ending June 30:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 1,344,052	\$ 1,337,673
Unrealized gains	245,722	6,379
Ending balance	<u>\$ 1,589,774</u>	<u>\$ 1,344,052</u>

Supplementary Information
(Unaudited)

**Summary Financial Information for Parishes and Missions in the Austin
Diocese (exclusive of the Central Administrative Office)
Supplementary Information (Unaudited)
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Total Number of Parishes & Missions	125	125
Cash and Cash Equivalents	\$ 33,147,241	\$ 32,734,718
DIAL Deposits	23,931,266	23,315,128
Investments (includes building funds)	12,723,397	18,267,352
Plant Assets	501,621,183	472,234,895
Other	4,405,330	13,540,159
	<u>575,828,417</u>	<u>560,092,252</u>
Accounts Payable to Central Administrative Office	159,075	60,434
Other Accounts Payable	606,389	576,015
Funds Held in Trust	8,936,841	9,274,375
Notes Payable	56,496,720	58,426,141
Bonds Payable	3,954,168	4,041,671
Other Liabilities	1,591,048	1,822,861
	<u>71,744,241</u>	<u>74,201,497</u>
Net Assets	<u>\$ 504,084,176</u>	<u>\$ 485,890,755</u>
Sunday and Holy Day Collections	\$ 62,269,126	\$ 61,972,176
Building Funds	15,337,970	17,196,718
Gifts, Bequests and Grants	2,205,330	2,239,414
Fundraising (net of related expenses)	5,523,293	6,142,106
Program Fees	11,776,608	12,354,403
Investment Income	587,871	732,937
Other Income	5,753,852	4,649,384
	<u>103,454,050</u>	<u>105,287,138</u>
Pastoral Services	13,745,735	13,012,833
Religious Development	8,797,271	8,328,213
Social Services	2,749,147	2,602,567
School Subsidies	3,145,808	4,487,539
Plant, Operating and Maintenance	16,221,162	14,960,606
Diocesan Assessment	7,165,884	6,745,092
Interest Expense	3,769,493	3,850,884
General and Administrative	25,292,153	23,943,613
Other Expenses	4,373,975	4,264,123
	<u>85,260,628</u>	<u>82,195,470</u>
Revenue Over Expenses	<u>\$ 18,193,422</u>	<u>\$ 23,091,668</u>

See accompanying independent auditors' report.